

Focus on policies of new government after LDP presidential election and lower house election

13 September 2021

- ▶ Massive economic stimulus on the way regardless of who is elected
- ▶ Stock market reaction positive on high hopes for change, yet more upside expected
- ▶ Beware of the risk of policy turnaround in existing monetary and fiscal policies once the economy normalises

On 3rd September, Prime Minister Yoshihide Suga announced that he would not run for the Liberal Democratic Party (LDP) presidency, scheduled on 29th September. This means that Suga will step down as Prime Minister when his term as LDP President ends on 30th September. The main reason for the decision is believed to be the widespread view within the LDP that Suga, whose approval rating has fallen sharply ahead of the lower house election, will not be able to win the election.

This development has provided a boost to the Japanese stock market, as it reduces the risk of the LDP losing a large number of seats in the lower house election, which was widely feared under the Suga leadership. In addition, signs that Covid-19 infections are peaking out has also lent support to the market. The Nikkei Stock Average regained the symbolic 30,000 yen mark at the close of the Tokyo stock market on 8th September.

As of 9th September, Fumio Kishida, the former Chairman of the Policy Research Council, and Sanae Takaichi, the former Minister of Internal Affairs and Communications, have announced their candidacy for the LDP presidential election, while Taro Kono, the Minister in charge of administrative reform, and several others have also expressed their willingness to run. The LDP presidential election is open to LDP Diet (Japanese parliament) members and party members.

However, with the support of the main factions unclear, it is difficult to predict the outcome of the election at this moment. This time, it is important for the LDP to choose a "face" who can win the Lower House election in October/November as LDP President (Figure 1), and in particular, MPs who have not been elected many times may not follow the voting policy of their faction.

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**“Prime Minister Suga
resigns”**

**“Difficult to call a winner in
the LDP presidential
election”**

Figure 1 : Key Events Schedule

Upcoming schedule (2021)

LDP Presidency election begins on 17th Sep, vote counting on 29th Sep
LDP Presidency candidate online policy debate between 23rd and 26th Sep
Current term of the LDP President ends on 30th Sep
Extraordinary Diet session in early October to elect new Prime Minister
House of Representatives election to be scheduled between late October and November
Current term of House of Representatives ends on 21st Oct
G20 Summit in Italy on 30th and 31st October
Two shot vaccination of willing population estimated to be completed by November
COP26 in to be held in the UK from 1st until 12th November

Next year and beyond

House of Councillors election in July 2022
BOJ Governor Haruhiko Kuroda's term ends on 8 th April 2023

Source : Asset Management One based on News reports

For whoever becomes LDP President, the top priority will be the containment of the pandemic and related economic stimulus response. Opposition parties are proposing an additional 30 to 50 trillion yen in fiscal spending, and the new LDP leader will need to come up with comparable measures in the run-up to the Lower House election.

The LDP currently holds a majority of seats in the House of Representatives, the Lower House of the Diet. In the past, when there has been a change of government, support for the government has tended to rise due to expectations for the new government. Therefore, it is highly likely that the ruling coalition parties, the LDP and the Komeito, will maintain the majority of seats in the House of Representatives.

“Economic measures will be massive in the run-up to the lower house election”

The elected new LDP president will need to focus on near-term responses to contain Covid-19 and normalise the economy. It will be only after the normalisation of the economy that we expect the new leader will be able to show distinctive differences.

Kishida's agenda includes strengthening the distribution function of income, raising incomes to expand the middle class. When he last ran for the LDP presidency in September 2020, he said it was important to maintain fiscal sustainability once the economy had started to move, so it is possible that he will set out a policy of fiscal consolidation once the economy has normalised. As minister in charge of administrative reforms, Kono is seen as a proponent of regulatory and administrative reforms, including the abolition of physical seals currently widely used in Japan to stamp official and government documents. He is likely to take a cautious stance on monetary easing and fiscal expansion, having once recommended that the government consider an exit strategy for its massive monetary easing policy. It is also important to bear in mind the possibility of a hasty push for an energy policy with an emphasis on renewable energy. As a successor to Abenomics, Ms Takaichi has set out a policy of bold monetary easing, flexible fiscal stimulus, and investment in crisis management and growth. She will also freeze the policy of achieving a primary balance surplus until the 2% price stability target is achieved. She has visited the controversial Yasukuni Shrine during her tenure as minister, and there are concerns that if her conservative (rightist) political stance increases, relations with China, South Korea and other neighbouring countries could deteriorate.

**“True nature of the next
LDP President will only
emerge after economic
normalisation”**

Figure 2 : Comparison of Candidates

Fumio Kishida
Need for aggressive fiscal and monetary policy in the near-term, with additional economic stimulus worth tens of trillions of yen.
Doubling income plan – enhance the distribution function and raise household incomes to expand the size of the middle class
Importance of maintaining fiscal sustainability once the economy recovers (mentioned during the last LDP presidency election in September 2020)
Taro Kono
Areas of interest - national security, diplomacy, disaster prevention, renewable energy, medical cost reduction, English education and digitalisation, he wrote in his book “Taking Japan Forward” published on 26th August 2021
As minister in charge of administrative reform, he has been involved in regulatory reform and administrative reform, including the abolition of physical seals
In the past, he recommended that the government consider an exit strategy for its massive monetary easing policy
Sanae Takaichi
Advocates “Sanaenomics”, succession of “Abenomics”, with (1) bold monetary easing, (2) flexible fiscal stimulus, and (3) investment in crisis management and growth
Temporarily suspend the primary balance target until inflation reaches 2%
Disaster prevention plan worth ¥100 trillion over next 10 years, with technological innovation and ongoing updates thereafter
Raise tax on financial income
Member of the Diet Members' Association for Yasukuni Shrine Visits

Source : Asset Management One based on News reports

The Japanese stock market has risen sharply in anticipation of a less turbulent scenario for the lower house election. In the short term, there is a possibility of a correction due to caution against overheating sentiment. However, the prospect of major economic stimulus measures and the start of discussions on easing restrictions on the use of vaccines in Japan are good news for corporate earnings in Japan, and TOPIX EPS forecast has been rising steadily to date. The price-to-earnings ratio rose to 15.5 times as of 8th August, but is still far from the upper end of the normal range of 17 times before the Covid-19 pandemic.

The risk scenario is that as the U.S. and other countries begin to normalise their economies and seek to move away from monetary easing in response to the Covid-19 pandemic, the next Prime Minister may be tempted to change fiscal and monetary policies once the economy normalises.

**“Further upside potential
for Japanese stocks”**

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